

**PURCHASING POLICY
OF METINVEST GROUP
Version 3.0**

**Mariupol
2020**

DOCUMENT DETAILS**Registration history:**

Release	Date of approval of the new revision or amendment	Summary of differences from the previous version, comments
Version 1.0	21.09.2012	Base Version
Version 2.0	22.04.2014	
Version 3.0		The document describes the strategic goals, objectives and major principles of Purchasing Process, management processes, as well as basic requirements on organization and warranties in process of purchasing. The process participants' rights and obligations, main stages of purchasing process, their description and business rules for the purchasing process (which were specified in earlier revisions of this document) shall be regulated with the Regulations on purchasing management of Metinvest Group.

**SUMMARY OF THE REGULATORY DOCUMENT
PURCHASING POLICY OF METINVEST GROUP**

1. Process name of Level 1	Purchasing management.
2. Purpose of creating / revision of the document (underline the required)	<ul style="list-style-type: none"> to specify the objectives, targets and principles of Purchasing Process organization in Metinvest Group (hereinafter the "Purchasing Process"); to describe management processes and requirements on the Purchasing Process organization.
3. Areas regulated by the document	Objectives, tasks, principles, requirements to Metinvest Group Purchasing Process organization.
4. Scope of application	Binding upon all employees of the Group Enterprises in Ukraine and of Directorates of the Management Company.
5. Business units involved in the process	Directorates of the Management Company, functions and business units of the Enterprises.
6. Process owner	Purchasing and Logistics Director of the Group.
7. Starting the process	Development of Purchasing plan registered on paper or in the SAP system.
8. Finishing the process	Documentary proof of the Supplier's obligations fulfilment in part of supplying the Group's enterprises with inventories/services. Evaluation of Supplier.
9. Clients (persons interested in the process outcome)	Chief Executive Officer and N-1 Managers of MC.
10. Higher level document	N/A

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1. TERMS AND ABBREVIATIONS

Terms and abbreviations used in the Purchasing Policy are specified in [Annex 1](#).

2. PURPOSE OF THE POLICY

Purchasing Policy of Metinvest Group (herein under the Policy) defines uniform goals/objectives and principles of Purchasing for all of the Metinvest Group enterprises (registered in Ukraine), as well as the guaranties and requirements on purchasing management process organization.

3. MISSION, GOALS AND OBJECTIVES OF THE PURCHASING PROCESS

3.1. **Mission** of Purchasing process of the Group

Timely provision of the Group with high quality raw materials, materials, equipment, works and services on the conditions most favourable for the Company with optimum level of inventories maintained at the same time.

3.2. **Strategic goals** of the Purchasing Process implementation by Metinvest Group are:

- creating the conditions for timely and full supply of materials, equipment and services to the Group in the required quantity, quality, in the specified time frame and on optimal commercial terms;
- enhancing efficiency of Metinvest Group business by reducing costs related to purchasing, delivery, storage and utilization of goods and services.

3.3. **In result of the Policy implementation the following tasks should be fulfilled:**

- ensuring consistent Purchasing Process performance improvement by reducing the total cost of material ownership;
- standardization of the Purchasing Process and organizational structure of main Purchasing Process participants;
- development of long-term and mutually beneficial relations with the Suppliers according to the principles of purchasing activities.
- having transparent procedures for selection of a reliable Supplier/Contractor, who offers the best conditions;
- increasing supply chain reliability via Compliance check, Pre-qualification of Suppliers and checking the candidates before signing the contractual documents;
- practicing routine performance evaluations for the Purchasing process participants and Suppliers;
- providing and maintaining the optimum stocks volume for smooth operation of the Group's enterprises and fulfilment of the production plans.

4. PURCHASING PROCESS PRINCIPLES

4.1. **The main principles of the Purchasing Process are:**

- **Principle of ethical business conduct:** Purchasing process participants and Suppliers are aware of the Ethics Code of Metinvest Group published on Metinvest Group's website

<https://metinvestholding.com/> and are consistently governed by it. The provisions on ethical business conduct make part of supply contracts, version approved by the CEO of the Management Company. When getting registered in the Supplier Relationship Management System, the counterparties agree to ethical business conduct and the Group's Principles of operations;

- **Principle of economic feasibility and purchasing efficiency:** ensure target and cost-effective use of funds for purchasing of goods and services;
- **Principle of free competition among Suppliers:** ensure equality, fairness, as well as no discrimination and unreasonable restrictions on competition for potential Suppliers during tender Purchasing procedures. No limitation of the bidders' circle for participation in purchasing procedures by setting immeasurable requirements for the bidders shall be allowed. Purchasing activities fulfilment conditions, methods, criteria and procedure for selecting the winner shall be defined in advance and shall be equal for all the participants;
- **Principle of prioritizing** of purchasing the inventories and services directly from the producers (contractors, providers)/manufacturers' official dealers with other conditions being equal;
- **Principle of partnership:** commitment to build long-time and mutually profitable relationship with the Suppliers. "Memorandum on strategic partnership" may be signed with key partners;
- **Principle of centralization:** implementation of centralized purchasing approach for the inventories and services, where economically feasible;
- **Principle of information transparency:** the existing principles of the Group as for selection, pre-qualification and disqualification of the Suppliers, as well as the information on the upcoming Supplier selection procedures are available for the Suppliers at <https://metinvestholding.com/>;
- **Principle of uninterrupted technological process:** the Group should be continuously supplied with goods and services to avoid downtime and emergencies;
- **Principle of after-payment:** the Group enterprises do not use advance payments as standard terms of payment under supply contracts. The payment deferral is an essential payment condition for purchasing.

5. RESPONSIBILITY AND SCOPE OF APPLICATION

5.1. The Procurement and Logistics Director of the Group is responsible for the achievement of the goals specified in this Policy.

5.2. **The owner of Purchasing Process** in Metinvest Group is the Procurement and Logistics Director of the Group.

5.3. Purchasing Process participants

5.3.1. The main participants of Purchasing Process shall be:

- The Customers, i.e. Directorates of MC, Functions and Business Units of the Assets (initiation, sign-off and approval of the inquiries for purchasing of inventories and services purchasing requisitions);
- **Asset supplies planning and analysis function** (processing and approval of the inventories purchasing requisitions, i.e. Customer's inquiries management, implementation of Material demand planning procedures);
- **Tender Committees of the Assets** and MC (joint decisions as for selection of the supplier);

- **Procurement and Logistics Directorate of MC, Spare Parts & Equipment Purchasing and Supply Monitoring Department of Maintenance Directorate at MC's Operations Directorate, Assets Purchasing Function** (participating in selecting a supplier and initiating a candidate Pre-qualification and check-up before signing of contractual documents);
- **Security Risks Analysis and Management Department of Risk Analysis and Management Directorate, Assets Risk Analysis and Management Function and Security Function representatives from outsourced company** (checking counterparties reliability: providing recommendations for Pre-qualification of counterparties and candidate eligibility checks for signing of contractual documents, participating in Tender Committee during Pre-qualification assignment and also participating in acceptance of inventories/services, random control of purchasing activities);
- **Material and Service Acceptance Committee** (incoming control materials/acceptance of the services);
- **Purchasing function of the Assets** (preparation and alignment of inventories supply agreements, claim management with the inventories' Suppliers, participating in commission control of incoming Inventories);
- **Dedicated departments of the Assets and MC** (preparation and alignment of service supply agreements, participating in commission control of incoming Services, agreement and claim management with the Services Providers, participating in selection of a supplier for purchasing of services);
- **Finance Directorate of MC and Finance Functions of the Assets** (participating in the Supplier selection procedure, reporting about discount rate).

5.3.2. Supplier evaluation and rating: cross-functional process that may involve several business units (Asset or MC Purchasing Function, Asset or MC dedicated departments, including but not limited to HSSE Function, Customers and other participants of Purchasing Process).

5.3.3. Rights and obligations of all the Purchasing process participants shall be governed by Metinvest Group Purchasing Process Regulations.

5.4. The Procurement and Logistics Director of the Management Company shall control the fulfilment of this Policy and be responsible for updating of this Policy.

5.5. The Policy applies to purchasing of any materials and services by the Management Company and Metinvest Group enterprises from third party suppliers and is binding for all the Enterprises and Processes. Purchasing within Metinvest Group are regulated by separate procedures.

5.6. The Policy shall not apply to the agreements and processes with the following subject: financial transactions, purchase/sale of foreign currency, acquisition of shares and other securities, sponsorship and charity, membership and other fees to non-profit entities, services of natural persons which work under commercial contracts.

5.7. All Purchasing Process regulations of MC and the Group's enterprises are applicable insofar as they are not in conflict with this Policy.

6. MANAGEMENT PROCESSES

The management processes classification according to the functions performed is given in the table below:

Process	Process description
Planning of goods, materials and services purchase volumes	The process includes generating and processing of Purchase Requisitions based on the Customer's demands, as well as analysing the possibilities to fulfil the Requisitions with the available stocks and generating the purchasing plan split into categories of inventories and services.
Search and selection of Suppliers	Process of the market analysis and Supplier selection procedures implementation that results in scenario for fulfilment of requisitions for inventories and services on the conditions, which are most favourable for the Group, for timely implementation of the plan on production and investments.
Supply management	Timely and complete provision of raw materials, inventories, equipment with specifications matching the requisitions submitted by the business units of the Enterprises, including development and follow-up of the delivery schedule and performing the activities related to the contract and claims.
Inventory management	Organization and implementation of inventory management: acceptance, storage, release of inventories to business units of the Enterprises, storage inventories balance management with consideration for the existing guidelines, maintaining the optimum level of stocks.
Supplier management	Supplier relationship management, including Compliance check, Pre-qualification, Candidates eligibility check for signing the contractual documents, Supplier rating process, Supplier disqualification and long term cooperation programs.
Supporting processes	Setting the business rules for the Purchasing management, control over the Purchasing Process, efficiency assessment for the Purchasing management and other auxiliary processes that ensure effective performance of the main processes and achievement of the Purchasing activities' targets.

7. GUARANTEES AND REQUIREMENTS ON PURCHASING MANAGEMENT PROCESSES ORGANIZATION

7.1. To achieve the targets set in this Policy the Group shall ensure the following:

- Creating the collective bodies in order to:
 - make the decisions on selecting the Supplier (Tender committees of all levels at the MC and Group's enterprises);
 - manage the Supplier relations of the Suppliers Relations Board and Group's Appeal Commission.
- Development of documents to regulate the business-rules for Purchasing that ensure transparency of Purchasing Process.
- Compliance with the principles of this Policy (art.3.3).
- Sustaining the effective, transparent and automated mechanism for defining the purchase volume for inventories and services and generating purchase requisitions.
- Ensuring activities transparency at all the stages of Purchasing Process, using the required alignment and controls. Thereby via:
 - making introduction for the Purchasing Process to the Group's Code of Ethics that is published on the Group's web-site <https://metinvestholding.com/>;

- providing the potential participants of Pre-qualification and/or Supplier selection process with a possibility to file a complaint to the Group's Appeal board (appeal@metinvestholding.com) over actions (failure to take actions) of the Tender Committee/Purchasing authorities in case former do not agree with the decisions on the Supplier selection;
- authorizing any employee of the Group or another party concerned to report inappropriate conduct or activities to the Trust Line: trustline@scm.com.ua.
- Following the guidelines on economically feasible levels of stocks for raw materials and materials for precise planning of demand.
- Using approved criteria for supplier selection stipulated in the Purchasing Management Regulations or Category Strategies. The list of criteria, their priority, weight and evaluation procedure shall be specified by the responsible Purchasing Officer in the document on implementation of the relevant Supplier selection procedure and in the notification of the Supplier selection procedure implementation.

7.2. **The main requirements to Purchasing Process organization** shall be as follows:

- **Centralization.** Purchasing activity of the Group is structured as centralized and direct Purchasing managed by the Procurement and Logistics Director.
- **Roles and responsibilities.** All of the key roles in Purchasing Process are distributed among its key participants in such a way that no participant could perform solely more than one of the below stages of Purchasing Process, i.e.:
 - initiation, sign-off and approval of demand in the purchasing of inventories and requisitions for purchasing of services;
 - processing and approval of the inventories purchasing requisitions;
 - approval of results of Pre-qualification and supplier selection;
 - checking the counter-parties reliability;
 - drafting and alignment of the supply contract;
 - entry control of goods/services acceptance;
 - Supplier assessment and rating.

Execution, approval and control of any of the above listed stages should also be segregated among different participants of the Purchasing Process. However, the control should be exercised by senior level (administrative or functional) or by function independent of the performer.

- **Personal responsibility in combination with joint decision making:** each of the Purchasing Process participants bears personal responsibility for providing correct information and his/her decisions made within the Purchasing Process, at the same time the key decisions shall be taken jointly.
- **The procurement and purchasing functions shall be separate:** the procurement and purchasing functions shall be performed by different employees. For centralized purchasing, it is possible to combine purchasing and procurement functions in terms of monitoring the delivery schedule and working with the supplier to ensure the regular deliveries, but not combining the function of selecting the supplier and authorizing the primary documents for the supply during acceptance of inventories and services.

- **Mandatory participation of purchasing function in the Purchasing Process:** the Purchasing Function of the Enterprise or MC must participate in Supplier selection.

7.3. **The main instruments of purchasing activities organization** shall be the following:

- Using the possibilities to consolidate the Group's Enterprises demands in order to decrease the purchasing price.
- Automating the Purchasing Process involving Infosystems and electronic modules of document management.
- Enhancing transparency of the Purchasing Process by:
 - applying the approved decision-making criteria for Supplier selection;
 - using e-trading platforms, where the system selects the winner based on the predefined criteria and human factor influence is minimized;
 - formula pricing based on the market quotations, where possible and reasonable;
- Unification of used materials and equipment for decreasing the volumes of stock, where possible and reasonable;
- Getting the largest number of Suppliers informed about the current demand by placing the requisitions in the single Procurement Calendar at the official website of the Company <https://metinvestholding.com/ru/procurement/ekz>. The procedure for making entries in the single Procurement Calendar and the list of purchasing categories are defined in the Provisions on keeping records of the Single Procurement Calendar;
- Supplier reliability check at all the stages of interaction (Compliance check, Pre-qualification and Candidate check for signing of the contractual documents);
- Organization of commission entry control for acceptance of inventories, works and services;
- Defining and monitoring of the corresponding performance indicators of the Purchasing Process;

7.4. **Target model for the Purchasing Process regulations** at the MC and Group's Enterprises is given in pic.1 below. Regulatory documents of the Group's Enterprises must be brought strictly in accordance with the Purchasing Policy, Procurement Management Regulations of Metinvest Group and corresponding Procedures on purchasing of MC via issuing the identical regulatory documents for the Group's Enterprises.

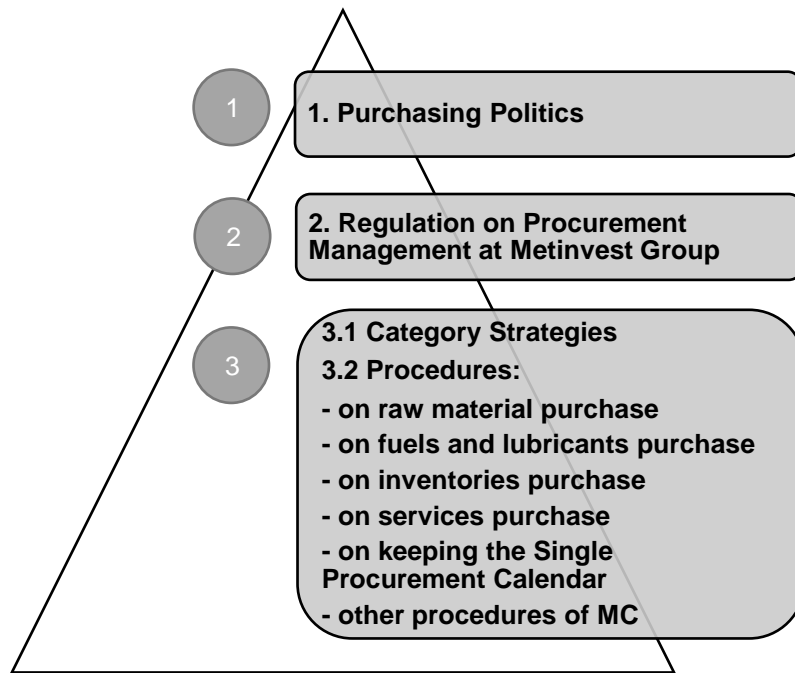


Fig. 1 – Target model for business-rules regulation of the Group's Purchasing Process.

7.5. Category strategy may be generated for each purchasing category to define the following: the purchasing model, list of stock items, key criteria for qualification, Supplier selection and evaluation, pricing formula and other elements specified in the Procurement Management Regulations of Metinvest Group. The procedure for development and approval of the category strategies is specified in the Procurement Management Regulations of Metinvest Group. The category strategies may define exceptions for the Purchasing Policy and Procurement Management Regulations of Metinvest Group and must not be in conflict with these documents.

7.6. The Group's Purchasing Process management shall be performed according to the internal regulatory documents.

to the Purchasing Policy of Metinvest Group

1. TERMS, DEFINITIONS AND ABBREVIATIONS

Asset, Enterprise, Group's enterprise meaning a legal entity registered under the laws of Ukraine and controlled by the Managing Company within the meaning of art.1 of 1 of the Law of Ukraine "On the Protection of Economic Competition".

Appeal Board of the Group (AB) is a collegial body of the Group in the field of Purchasing, authorized to consider and make decisions on settlement of disputes between the enterprises of the Group and Counterparties, consider complaints of Counterparties and study initiatives of the structural units of the Company as for the issues of Counterparties disqualification with the subsequent submission of materials for consideration by the Supplier Relations Board. The procedure for the AB establishment and operation, as well as the principles of work and decision-making are determined by the Regulations on the Appeal Board of Metinvest Group.

Metinvest Group (the Group) meaning the Management Company and Enterprises.

F&L – fuels and lubricants.

Supplier Disqualification is any of the below decisions or combination thereof made by the Group's Supplier Relations Board and valid within certain period of time:

- on Pre-qualification termination for a certain period by Purchasing group / category, taking into account the Supplier's fulfilment of obligations under existing contracts / specifications and without concluding / prolonging thereof for the period of Disqualification;
- on initiation of the procedure for early termination of contractual relations with the Supplier in the manner determined by the relevant agreement.

LPD – Logistics and Procurement Directorate;

SPC – Single Procurement Calendar, information on planned purchases posted on the official website of the Group <https://metinvestholding.com/>.

Requester is a business unit of the Management Company or Asset that initiated materials or services purchase (drew up a Requirement).

Purchase requisition is a document that includes (at least) the following information about all stock items of materials/services to be purchased to meet production needs during the planned calendar period:

- name;
- units of measure;
- quantity;
- technical and quality properties;
- expected delivery date.

Category strategy is a long-term Purchasing management plan for a category of materials/services that defines: the purchasing model, list of stock items, key qualification criteria, Suppliers selection and assessment of their performance, pricing formula and other elements.

Purchase category is a combination of stock items of Materials/Services that have selected similar properties and satisfy closely related needs of the Requester (for example, in terms of application, manufacturing, pricing, geographic location, importance to business, etc.).

Operational Purchasing Committee is a collective body operating within the framework of the Operational Purchasing Policy for the purpose of increasing the efficiency of Purchasing management and transparency of key decisions about the Purchasing of materials and goods/Services for the operational activity, including resolving disputes that arise in the course of the interaction between Purchasing functions and other structural units of Group's Enterprises.

Compliance check means verification for which the Compliance-Officer Function provides conclusion submitted via e-mail (may be done via electronic file-exchange modules) according to the Politics on anti-money laundering and anti-terrorism financing.

The Code of Ethics is a set of standards and principles that must be followed by the employees of the Group Enterprises on daily basis. The full text of the Code of Ethics is published on the website www.metinvestholding.com.

Materials, inventory and resources are tangible items that can be measured in physical values (kilogram, meter, litre, m², cubic metre, etc.). For the purposes of this Policy they include all types of material and technical resources consumed in production process at once or gradually, including feedstock, main and auxiliary materials, equipment, spares, units, fuel and lubricants, utilities, etc. For the purposes of this Policy the term 'materials' means also inventory and resources.

Supplier means any legal or natural person (i.a. private entrepreneur) that is not part of Metinvest Group, which provides Metinvest Group Enterprises with Materials and Services.

(Supplier) pre-qualification, qualification is a procedure carried out in accordance with the Counterparties Reliability Risk Management Regulation to identify qualified Counterparties that meet the requirements and criteria of the Company, in order to create a list of potential bidders for subsequent purchases of Materials and Services.

Candidate, potential supplier is a counterparty that applied for pre-qualification or submitted a Commercial Proposal to take part in the supplier selection procedure.

Candidate eligibility check for signing of contractual documents means actions according to the Counterparties Reliability Risk Management Regulations in relation to the counterparty that are aimed to define, whether the potential Supplier's process, financial and organizational capabilities are adequate for fulfilling their contractual obligations and to ensure that there're no objective and subjective obstacles which may handicap the counterparty to perform such obligations.

Purchasing process, Purchasing activity, Purchasing is the activity of purchasing materials and services at reasonable market prices and in line with the Customer's requirements on quality, time and place of delivery by taking the following actions:

- issuing and processing of Purchasing requisitions;
- search, Pre-qualification, candidate check for signing of the contractual documents and Supplier selection;
- entering into contracts with Suppliers;
- supply management;
- entry control over supplies, claim management;
- Supplier evaluation.

Supplier rating and evaluation is a process of rating the suppliers and contractors using quantitative and qualitative metrics and a calculation algorithm established by the Supplier Rating Procedure, aimed at measuring the performance of suppliers in order to reduce costs, mitigate risks and increase the Purchasing efficiency.

Supplier relationship management system of Metinvest Group is an electronic system that contains information about the Pre-qualification and Disqualification of Suppliers and is determined by the MC Purchasing and Logistics Director (SAP Ariba SLP or other electronic system intended to report such information).

Metinvest Group Supplier Relations Board (SRB) is a collective body participating in Purchasing Process and composed of the Management Company top managers. It is authorized for decision making as for Disqualification and Supplier Disqualification Recall, as well as for decisions on other Supplier Relations issues, including long term partnership. It elaborates and develops the Supplier Relations management culture. The procedures for the Supplier Relations Board organization and practices, as well as its operation principles and Supplier Relations Decision-making are governed by the Regulations on Supplier Relations Board of Metinvest Group.

Total cost of ownership is a Materials purchase price, including operating costs for the entire estimated service life, specific costs for purchasing, calculated on the service life basis, and (where applicable) taking into account the benefits obtained in comparison with alternative Materials.

Tender Committee (TC) is a collegial body that makes decisions on selection of the supplier of inventories and services, as well as on assignment of status to the Suppliers (either "Pre-qualified" or "Pre-qualification rejected").

Management Company / the Company / MC means METINVEST HOLDING, LLC.

Services are the activities on conversion of material items to obtain their specific condition (e.g. repair works) or activities not directly related to the items in material form, aimed mainly at the activity itself (e.g. information, consultancy services) rather than the activity result. For the purposes of this Regulations the term "services" means also works.

SAP is a global information system of Metinvest Group (which is operated by several of the Group's enterprises) that provides automation, accounting and control of all processes of the enterprises' financial and economic activities. It can include SAP ERP, SAP MDG, SAP Ariba Sourcing, SAP Ariba SLP and other SAP modules.